

UNITED STATES OF AMERICA  
OFFICE OF THE U.S. TRADE REPRESENTATIVE

+ + + + +

TRADE POLICY STAFF COMMITTEE

+ + + + +

NEGOTIATION OF A U.S.-SINGAPORE  
FREE TRADE AGREEMENT

+ + + + +

PUBLIC HEARING

+ + + + +

MONDAY, APRIL 1, 2002

The Public Hearing convened in Conference Room 1 at the Office of the United States Trade Representative Annex, 1724 F Street, N.W., Washington, D.C., at 10:00 a.m., Carmen Suro-Bredie, Chairman, presiding.

PRESENT:

CARMEN SURO-BREDIE, Chairman, Office of the U.S.  
Trade Representative

KEVIN BOYD, U.S. Department of Commerce

ELENA BRYAN, Office of the U.S. Trade Representative

WON CHANG, U.S. Department of Treasury

JOHN KARHNAK, U.S. Environmental Protection Agency

DAN LEAHY, U.S. International Trade Commission

JIM STEELE, U.S. Department of State

## I N D E X

Opening Statement, Carmen Suro-Bredie, Chairman .	3
Witnesses:	
Peter T. Mangione, President, Footwear Distributors and Retailers of America . . . . .	6
John Meakem, Manager, International Trade, National Electrical Manufacturers Association . .	11
Kurt E. Lopez, Regulatory Attorney, and Ron Schoof, Caterpillar, Inc. . . . .	20
Don Ritter, Chairman and President, National Environmental Policy Institute . . . . .	35
David Angel, Laskoff Professor of Economics, Technology and the Environment, Clark University . . . . .	47
Julie Hughes, Vice President, International Trade and Government Relations, U.S. Association of Importers of Textiles & Apparel . . . . .	57
Adjourn . . . . .	67

**NEAL R. GROSS**

COURT REPORTERS AND TRANSCRIBERS  
1323 RHODE ISLAND AVE., N.W.  
WASHINGTON, D.C. 20005-3701

(202) 234-4433

[www.nealrgross.com](http://www.nealrgross.com)

P-R-O-C-E-E-D-I-N-G-S

10:15 a.m.

CHAIRMAN SURO-BREDIE: The hearing will come to order. This hearing is being conducted by the Trade Policy Staff Committee, an interagency body chaired by the Office of the U.S. Trade Representative. My name is Carmen Suro-Bredie. I would like to have my fellow Panelists introduce themselves. We'll start with the representative of the Department of Treasury.

MR. CHANG: Won Chang, Treasury Trade Office.

MR. KARHNAK: John Karhnak, PA.

MR. STEELE: Jim Steele from the State Department.

MR. BRYAN: Elena Bryan from the USTR.

MR. BOYD: Kevin Boyd from the Commerce Department.

MR. LEAHY: Dan Leahy from the International Trade Commission.

CHAIRMAN SURO-BREDIE: Okay, the subject of this hearing is the proposed negotiation of a U.S.-

**NEAL R. GROSS**

COURT REPORTERS AND TRANSCRIBERS  
1323 RHODE ISLAND AVE., N.W.  
WASHINGTON, D.C. 20005-3701

(202) 234-4433

[www.nealrgross.com](http://www.nealrgross.com)

1 Singapore Free Trade Area.

2 In November 2002, the United States and  
3 Singapore announced that they would enter into  
4 negotiations on a bilateral free trade agreement.  
5 Negotiations were launched in December 2000. In early  
6 2001, the Bush Administration reaffirmed the United  
7 States' commitment to the negotiations. The parties  
8 expect the negotiations will intensify in the coming  
9 months.

10 The United States and Singapore are  
11 seeking to eliminate duties and commercial barriers to  
12 bilateral trade in U.S. and Singaporean-origin goods.  
13 The agreement is also expected to include provisions  
14 on trade in services, investment, trade-related  
15 aspects of intellectual property rights, competition,  
16 government procurement, electronic commerce, trade-  
17 related environmental and labor matters, and other  
18 issues.

19 These matters were the subject of a notice  
20 published in the Federal Register on February 22,  
21 2002. As sated in that notice, the Trade Policy Staff  
22 Committee invited written comments and/or oral

1 testimony of interested persons in the public hearing  
2 on the economic effects of a U.S.-Singapore FTA.

3 Comments are invited particularly on:

4 Economic costs and benefits to U.S.  
5 producers and consumers from the removal of all tariff  
6 barriers to trade between Singapore and the United  
7 States.

8 Existing nontariff barriers to trade in  
9 goods between Singapore and the United States and the  
10 economic costs and benefits to U.S. investors and  
11 consumers from eliminating those restrictions.

12 Any matters relevant to the U.S.-Singapore  
13 FTA, including other measures, policies or practices  
14 of the Government of Singapore that should be  
15 addressed in the negotiations.

16 And the possible effects on workers'  
17 rights, working conditions and living standards, as  
18 well as the possible environmental effects.  
19 Supplemental comments are also being requested on the  
20 scope of the environmental review of the proposed  
21 U.S.-Singapore FTA currently under negotiations.

22

1           Those persons not willing to participate  
2           in this hearing today may submit written comments no  
3           later than the close-of-business on Friday, April 5th.

4           We will now hear from the first witness,  
5           a statement by Mr. Peter Mangione, President of the  
6           Footwear Distributors and Retailers of America.

7           MR. MANGIONE: Good morning. My name is  
8           Peter Mangione. I am the President of the Footwear  
9           Distributors and Retailers of America. Our members  
10          account for approximately three quarters of all  
11          footwear sold at retail in the U.S. and for the vast  
12          bulk of imported footwear.

13          We are pleased to appear today to urge  
14          that all duties on footwear into the U.S. manufactured  
15          in Singapore under an FTA be eliminated entirely on  
16          the first day of implementation of the agreement.

17          We make this recommendation for three  
18          principal reasons. First, with import penetration in  
19          the footwear sector exceeding 95 percent, duties on  
20          footwear have lost all relevance and have no  
21          commercial significance. This is so because the price  
22          of imported footwear after application of MFN duties

1 is vastly cheaper than U.S.-produced shoes. Indeed,  
2 the differential between U.S. manufactured and  
3 imported shoes ranges after application of duties from  
4 between 60 percent lower to 40 percent lower,  
5 depending on category. Clearly, U.S. producers long  
6 ago lost the price battle with imports. And the price  
7 adjustment mechanism, tariffs, are thus totally  
8 irrelevant and unnecessary.

9 Second, there is simply no connection  
10 between continuance of tariffs and U.S. footwear  
11 manufacturing and jobs. The little remaining U.S.  
12 shoe production only survives by differentiating  
13 itself on basis other than price, such as brands,  
14 product positioning, size and width strategies and the  
15 like. Indeed, in its most recent investigation, the  
16 ITC concluded that "domestically produced footwear  
17 articles compete almost entirely on nonprice factors  
18 such as brand names, product quality and  
19 differentiation and support services." We agree.  
20 Elimination of duties will not affect these  
21 strategies.

22 Third, shoe duties are a huge consumer

1 tax. In 2001, more than \$1.6 billion was paid to the  
2 Treasury in shoe duties. This amounts to some \$3.5  
3 billion at retail applying normal markups. With only  
4 18,000 U.S. workers in the low shoe duty area, the  
5 cost is some \$115,000 per job. The job cost in the  
6 high duty footwear area where there are some 2,300  
7 workers, is approximately \$475,000 per job.

8 Finally, it is clear that by any standard,  
9 shoe manufacturing in Singapore is a minute industry  
10 with total production only about 4 million pair  
11 annually and with de minimis exports to the U.S. It  
12 is inconceivable that manufacturing of footwear in  
13 Singapore could have any impact on U.S. shoe  
14 manufacturing.

15 Thank you for your attention this morning.

16 CHAIRMAN SURO-BREDIE: Thank you, Mr.  
17 Mangione. I think the Panel has some questions for  
18 you.

19 MR. BOYD: Yes, a quick question. Your  
20 testimony notes the current low level of U.S. imports  
21 of footwear from Singapore.

22 MR. MANGIONE: Yes.



1                   MR. BOYD: At the conclusion of the free  
2 trade agreement, do you think your members would seek  
3 to source more product from Singapore?

4                   MR. MANGIONE: It's possible. AS you  
5 know, some of the duties are very high, ranging up to  
6 60 to 70 percent so there might be an incentive for  
7 some type of investment there. But frankly, we don't  
8 expect it to be a huge flood. After all, Singapore is  
9 a fairly high cost environment. But we would expect  
10 that there would be some exploration of those  
11 opportunities.

12                  MR. BOYD: Thank you.

13                  MR. MANGIONE: You're welcome.

14                  CHAIRMAN SURO-BREDIE: Another question  
15 for Mr. Mangione?

16                  MR. LEAHY: It's a comment not a question.  
17 I wanted to thank you for mentioning the Commission's  
18 report in your testimony.

19                         (Laughter.)

20                  Very often we don't get quoted at all and  
21 more often than not, it's because somebody doesn't  
22 like what we said rather than liking it. I will point

1 out that the report that you were referring to had to  
2 do with NAFTA tariff elimination. The question we  
3 were being asked there was slightly different than we  
4 were asked for in the context of U.S.-Singapore. At  
5 that point, in the NAFTA, we were being asked about  
6 the impact of an immediate elimination of duties that  
7 were scheduled to go out in January of 2003. And your  
8 quote was accurate.

9 MR. MANGIONE: May I correct you?

10 MR. LEAHY: Sure.

11 MR. MANGIONE: Some of the duties in that  
12 investigation were scheduled to go out in 2008.

13 MR. LEAHY: Longer term.

14 MR. MANGIONE: Yes, and they're among the  
15 highest duties under the tariff schedule.

16 MR. LEAHY: Well, we'll also be looking at  
17 the same products in the context of the investigation  
18 we're doing on the U.S.-Singapore.

19 Thank you.

20 MR. MANGIONE: Thank you.

21 MS. BRYAN: Are you looking for a  
22 precedent effect in this agreement since it's been

1       difficult in other agreements to accelerate the  
2       reduction of footwear duties?

3               MR. MANGIONE: I don't think it's a secret  
4       in this room that we want to eliminate all footwear  
5       duties in the DOHA Round. We want to eliminate all  
6       footwear duties under NAFTA, Chile, Singapore.  
7       Footwear duties have no relevance whatever in the  
8       commercial world. They are simply a nuisance and are  
9       an extraordinary tax on consumers. And we would  
10      welcome any precedent that would establish their  
11      elimination which is why we're so delighted with the  
12      Commission's report on the NAFTA acceleration.

13             CHAIRMAN SURO-BREDIE: I think we have no  
14      more questions. Thank you, Mr. Mangione.

15             Our next witness is Mr. John Meakem from  
16      the National Electrical Manufacturers Association.

17             MR. MEAKEM: If you'll bear with my nose,  
18      the hay fever season just started this weekend and it  
19      promises to be a very cruel April.

20             We do have a few handouts which we've put  
21      together on just trade in our sector, based on ITC  
22      figures that we happen to have.

1           The National Electrical Manufacturers  
2 Association is the largest trade association  
3 representing the interests of U.S. electrical industry  
4 manufacturers. Our more than 400-member companies  
5 manufacture products used in the generation,  
6 transmission, distribution, control and use of  
7 electricity. These products, by and large,  
8 unregulated, are used in utility, industrial,  
9 commercial, institutional and residential  
10 installations. Annual NEMA shipments exceed, well  
11 exceed, \$100 billion in value.

12           Let me just say and some of the figures  
13 we're handing out will show that we do support very  
14 much the free trade agreement in our sector. We run  
15 a surplus to Singapore and our sales there have been  
16 growing as this graph will show over the last 10 years  
17 with some predictable dips due to the fluctuations of  
18 the Asian crisis in 1997 and the recession in the past  
19 two years, but the trend is generally upwards.

20           This said, we are quite concerned about  
21 some interests expressed by Singapore in entering into  
22 mutual recognition agreement discussions as a part of

1 the larger FTA talks. While NEMA supports  
2 international MRAs for federally regulated products  
3 such as electrical-medical devices, we strongly oppose  
4 MRAs for unregulated products such as most electrical  
5 equipment. Government to government MRAs are not the  
6 answer to conform assessment needs in nonregulated  
7 areas. If anything, they serve to encourage the  
8 creation of unnecessary product-related regulation.

9 This said, we very much want to see the  
10 FTA include endorsements by Singapore of the following  
11 NEMA priorities:

12 Bilateral as well as world-wide WTO tariff  
13 elimination for all electrical products.

14 Energy services liberalization, both  
15 bilaterally and as a part of WTO "built-in agenda"  
16 talks on services.

17 Openness and transparency in government  
18 procurement by specifically (1) extending U.S.  
19 companies the benefits of Singapore's 2.5 percent  
20 preference for ASEAN members and any other preference  
21 programs that Singapore has in place; (2) 100 percent  
22 transparency coverage in Singapore for all goods and

**NEAL R. GROSS**

COURT REPORTERS AND TRANSCRIBERS  
1323 RHODE ISLAND AVE., N.W.  
WASHINGTON, D.C. 20005-3701

(202) 234-4433

[www.nealrgross.com](http://www.nealrgross.com)

1 services; and (3) bilateral coverage for all state-  
2 owned enterprises not currently covered in Singapore  
3 under its government procurement agreement  
4 commitments.

5 We'd also like to see Singapore endorse  
6 compliance with all WTO Technical Barriers to Trade  
7 requirements such as the open, transparent development  
8 of standards and regulations.

9 Acceptance that the definition of  
10 "international standards" in the WTO TBT treaty is not  
11 restricted to only IEC, ISO and ITU standards, but  
12 should also include widely-used norms such as some  
13 North American standards and safety installation  
14 practices that meet TBT guidelines.

15 Acceptance that voluntary, market-driven  
16 standards and conformity assessment should be  
17 encouraged over mandatory government regulations.

18 Full adherence to TRIPS commitments  
19 including better legal and administrative means for  
20 pursuing cases of trademark infringement.

21 Any other market access commitments  
22 relating to customs, subsidies, local preferences,

1       etcetera, which have served to disfavor U.S.  
2       electrical manufacturers.

3               Finally, on an MFN basis, the U.S.  
4       government should consider the elimination of its own  
5       so-called "nuisance" duties in the context of the  
6       Singapore FTA. U.S. battery producers, for example,  
7       have called for the elimination of the U.S. tariff of  
8       2.5 percent on batteries and primary cells.

9               Finally, with regards to the question of  
10      environmental and labor provisions, we endorse calls  
11      by some of the umbrella business groups such as NAM  
12      and the National Foreign Trade Council and others for  
13      full consultation with the business community in this  
14      area.

15              Thank you for your consideration of these  
16      remarks.

17              CHAIRMAN SURO-BREDIE:       Thank you.  
18      Questions from the Panel?

19              MR. KARHNAK: Thank you, on the last of  
20      the bullets of points in your testimony and you just  
21      repeated it as well, if I read the statement  
22      correctly, you're asking do we include endorsements by

1 Singapore the following NEMA priorities and the last  
2 one is a commitment which disfavor electrical  
3 manufacturers. Is that a typo?

4 MR. MEAKEM: I think that last bullet is  
5 meant as being a catch-all, that looking further up  
6 before that we talk about government procurement and  
7 some of the different thing which are out there to  
8 hinder access and that last bullet is meant to mean  
9 that the previous bullets are not necessarily all  
10 inclusive. There are other subsidies, local  
11 preferences which are out there which serve to favor  
12 a local or say a regional producer. We'd certainly  
13 want that to be addressed in the FTA.

14 MR. BOYD: Your testimony states that you  
15 oppose mutual recognition agreements for those  
16 products which are not regulated. And basically  
17 states that they cause more problems than they solve.  
18 For those of us who are not experts in the field of  
19 standards and conformity assessment, could you perhaps  
20 expand on that a little bit, since we by and large,  
21 think of these agreements as opening markets and  
22 creating opportunities.



1 MR. MEAKEM: Sure. And let me repeat that  
2 within our product scheme at NEMA, we include medical  
3 devices which are federally regulated and we do  
4 support mutual recognition agreements for them.

5 I think the answer to your question and  
6 it's one where standards experts have missed and  
7 technical experts at NEMA could talk about it for  
8 several hours on end, but I think what it comes down  
9 to is that the way we do our standards system in the  
10 U.S., unlike in other countries is not top down by the  
11 government. It's dispersed, market-driven, if you  
12 will.

13 Our feeling is that government to  
14 government MRAs create the potential for extra  
15 regulations, an extra layer of involvement by  
16 governments where a system is already working and in  
17 place and our feeling is that that bureaucratic creep  
18 potential is not something that we would like.

19 We could go on for a while on that, but  
20 when it came to the U.S.-EU negotiating their MRA a  
21 few years ago, unfortunately the U.S. government  
22 ignored our concerns on that and included an

1       electrical safety MRA. Since then, we have had --  
2       been successful and have worked quite well with the  
3       USTR and others on other MRAs to on the one hand  
4       present to other countries how our system works.

5               But on the other hand not to actually sign  
6       on to some of these commitments and that has worked  
7       very well and we have also as you may know worked with  
8       NIST and co-sponsored a series of seminars involving  
9       standards experts from around the world to try to  
10      spend a little bit more time explaining to other  
11      systems.

12             MR. BOYD: Should I take it then that you  
13      have not had any problems in terms of conformity  
14      assessment in Singapore?

15             MR. MEAKEM: From where I sit and we have  
16      a whole engineering department, I haven't gotten too  
17      many calls complaining about Singapore per se.

18             MR. BOYD: Okay. Thank you.

19             MR. LEAHY: Thank you for your testimony,  
20      Mr. Meakem. I also thank you for your references to  
21      the ITC's data web. I didn't realize this was going  
22      to get to be my day to promote the agency, but the

**NEAL R. GROSS**

COURT REPORTERS AND TRANSCRIBERS  
1323 RHODE ISLAND AVE., N.W.  
WASHINGTON, D.C. 20005-3701

1 data web is an internet based product that I think you  
2 have found useful and others would too, so I encourage  
3 those out in the audience who haven't used it yet,  
4 please do so.

5                   However, I do have a question for you.  
6 Coming from the agency that used to be called the  
7 Tariff Commission, we have never been able to bring  
8 ourselves into any particular tariff a nuisance  
9 tariff. I'm familiar with the concept. Is there a  
10 longer list. You've noted one in your testimony.  
11 Does NEMA have a longer list of nuisance tariffs that  
12 we should be looking at?

13                   MR. MEAKEM: We could certainly put one  
14 together for you, if you like. I'd be happy to look  
15 into that for you.

16                   MR. LEAHY: Okay, I think that would be  
17 useful. Thank you.

18                   MS. BRYAN: Let me ask -- I was interested  
19 to see that you're promoting MFN tariff reductions in  
20 the context of Singapore. For Singapore that doesn't  
21 mean much because their tariffs are predominantly at  
22 zero.

1                   For us though to make an MFN commitment in  
2                   the context of an NTA, normally would remove some  
3                   leverage that we might have to get tariff reductions  
4                   in other countries that you're probably interested in.  
5                   I'd be interested in your comment on that.

6                   MR. MEAKEM: I am not sure I have a good  
7                   comment for you on that, frankly, in part because I  
8                   don't have some of the members who gave me some  
9                   expertise on that point with me right now. I'd be  
10                  happy to get back to you on that further.

11                  CHAIRMAN SURO-BREDIE: Any more questions  
12                  for Mr. Meakem?

13                  Thank you, Mr. Meakem.

14                  Our next witness is Mr. Kurt Lopez from  
15                  Caterpillar.

16                  MR. LOPEZ: I brought you some material to  
17                  look at, for each one of you, as we speak.

18                  On behalf of Caterpillar, Inc., I appear  
19                  before you in support of the proposed U.S.-Singapore  
20                  free trade agreement. Caterpillar is a strong  
21                  proponent of free trade policies. Half of Caterpillar  
22                  sales are outside the United States, actually 1999, 50

**NEAL R. GROSS**

COURT REPORTERS AND TRANSCRIBERS  
1323 RHODE ISLAND AVE., N.W.  
WASHINGTON, D.C. 20005-3701

(202) 234-4433

[www.nealgross.com](http://www.nealgross.com)

1 percent were outside and 50 percent were inside.  
2 Caterpillar has maintained its position as a leading  
3 U.S. exporter with U.S. exports in 2001 of \$4.8  
4 billion. Caterpillar is a U.S.-based company with  
5 manufacturing and distribution facilities around the  
6 world, shipping products to job sites in nearly 220  
7 countries. Caterpillar Asia Partnership Limited is  
8 one of our most significant overseas operations and is  
9 based in Singapore.

10 As you may know, our products range from  
11 industrial machines, engines and replacement parts  
12 therefore.

13 Caterpillar Asia is a marketing  
14 headquarters that serves 15 countries in South East  
15 Asia stretching from India to South Korea and  
16 Mongolia. The organization was established in 1965 in  
17 Hong Kong under the name of Caterpillar Far East  
18 Limited.

19 In 1991, we moved to Singapore from Hong  
20 Kong and changed our name to Caterpillar Asia  
21 Partnership Limited. Caterpillar Asia has marketing  
22 responsibilities with our independent dealers and more

1       than 160 dealer branches throughout the region. To  
2       closely serve our customers in Asia, we have four  
3       district offices in Bangkok, Kuala Lumpur, Jakarta and  
4       Manila. Our interests in Asia are significant and  
5       posed for growth.

6               In addition, Caterpillar's remanufacturing  
7       business provides jobs in the U.S. and serves to  
8       protect the global environment. This growing business  
9       recycles otherwise unusable engines, drive-trains and  
10      components by revitalizing salvageable materials and  
11      utilizing them to manufacture, predominantly in the  
12      U.S. like-new engine and drive-train products sold  
13      world-wide. Caterpillar encourages the United States  
14      Trade Representative to negotiate the Singapore free  
15      trade agreement in a manner that would specifically  
16      promote growth in remanufacturing.

17             The Singapore free trade agreement will  
18      benefit the U.S. and Singapore economies and  
19      strengthen the commercial ties between Singapore and  
20      many U.S.-based corporations, including Caterpillar.  
21      Thank you for your efforts in negotiating this  
22      agreement and for extending Caterpillar the

1 opportunity to present these comments.

2 CHAIRMAN SURO-BREDIE: Thank you.

3 MR. STEELE: Thank you very much, Mr.  
4 Lopez, for your testimony and your encouragement for  
5 our efforts to negotiate the Singapore FTA.

6 In your testimony you've encouraged us to  
7 negotiate that FTA in a manner that would promote the  
8 growth of remanufacturing. Would appreciate your  
9 comments on how we might best do that.

10 MR. LOPEZ: Yes, thank you. Specifically,  
11 within Caterpillar's experience, we've been able to  
12 obtain engines and parts and products that have ended  
13 their life cycle outside of the U.S. and bring them in  
14 and recycle them and turn them into basically brand  
15 new engines.

16 As I've provided for you to look at you  
17 can see that the end product of the remanufactured  
18 good is like brand new and has -- is warrantied like  
19 brand new. Most of the work in a remanufactured  
20 product is conducted in the United States. In the  
21 context of a trade relationship, specifically with  
22 Singapore we would ask that the USTR allow the

**NEAL R. GROSS**

COURT REPORTERS AND TRANSCRIBERS  
1323 RHODE ISLAND AVE., N.W.  
WASHINGTON, D.C. 20005-3701

(202) 234-4433

[www.nealrgross.com](http://www.nealrgross.com)

1 importation of these what we refer to as cores, but to  
2 conceptualize them as broken, dirty engines, useless  
3 almost. Almost.

4 To allow the importation of such cores or  
5 broken, dirty engines, duty free into the United  
6 States and to specifically add remanufacturing  
7 language in the free trade agreement.

8 It's important to specify the term  
9 remanufacturing in the free trade agreement because it  
10 would differentiate the remanufacturing industry  
11 between basic rebuilding industry. If you can  
12 visualize a broken engine that needs a little bit of  
13 work and is brought in and is maybe done by a repair  
14 shop or a local facility, spruced up and fixed and  
15 tested and resold to a customer, that's different than  
16 what happens with remanufacturing.

17 Remanufacturing takes in a bunch of, like  
18 I mentioned, broken dirty engines, almost in a big  
19 heap in a bin here in the United States and throws  
20 away what's garbage, keeps what could be revitalized,  
21 tests it, rewelds it, grinds it. Runs it through all  
22 kinds of procedures that give the product a new



1 identity, almost as a new product, as a matter of  
2 fact, a new serial number, so that once that broken,  
3 dirty engine stuff that goes into this bin has gone  
4 through the remanufacturing process, you can have, in  
5 essence, a brand new part to a brand new component and  
6 by so doing, you're taking broken dirty engines out of  
7 the market where they wouldn't be recycled.

8 In this instance, they're given new life  
9 and by so doing they're protecting the environment.  
10 You're taking out a lot of stuff where we don't know  
11 where it would be put to, if it's not put to good use  
12 as a likening part.

13 By providing favorable duty treatment to  
14 such practice and specifically addressing the  
15 remanufacturing industry in this trade agreement you  
16 could serve the purpose of protecting the environment  
17 and also helping Caterpillar grow the industry here in  
18 the United States and provide more jobs.

19 MR. STEELE: Most of your remanufacturing  
20 is in the U.S. or totally in the U.S.?

21 MR. LOPEZ: That's correct. It's almost  
22 all in the United States and we're poised to grow the

1 business if we're able to get a little bit better duty  
2 treatment on the cores or broken, dirty engines that  
3 we cede from outside of the United States and then  
4 resell to other countries. Most of the work is  
5 conducted here in the United States.

6 MR. STEELE: Just a follow-on question if  
7 you will, you've noted the importance of your  
8 operation in Singapore as the center for Southeast  
9 Asia, how do you envision or do you envision including  
10 the FTA with Singapore would change your business  
11 operations?

12 MR. LOPEZ: If we're able to obtain duty  
13 free importation of cores, we would be able to harvest  
14 more cores to bring into the United States and grow  
15 the remanufacturing operations here in the U.S. In  
16 Singapore, we have a substantial operation where we  
17 harvest cores. We'd like to grow that. In essence,  
18 that's what feeds our operations here. That's what  
19 feeds the jobs that we provide here is by getting more  
20 cores out of Singapore and bringing them here and then  
21 turning them into a new product here and selling them  
22 to the rest of the world.

**NEAL R. GROSS**

COURT REPORTERS AND TRANSCRIBERS  
1323 RHODE ISLAND AVE., N.W.  
WASHINGTON, D.C. 20005-3701

(202) 234-4433

[www.nealrgross.com](http://www.nealrgross.com)

1                   MR. STEELE: I guess my question was maybe  
2                   a little bit more focused on the export promotion  
3                   angle of your business. When we conclude the FTA with  
4                   Singapore, how would you envision that changing your  
5                   overall commercial presence, your overall commercial  
6                   operations in Singapore?

7                   MR. SCHOOFF: In order to have a core, you  
8                   have to have a sale of a remand product. So for every  
9                   core that we increase coming back, we've got a sale  
10                  that's left this country that's gone to the Singapore  
11                  operation. So it's a one for one. So then for us to  
12                  increase we're running both ways with Singapore for  
13                  sale and a core to bring back. So it's bringing back  
14                  the product here in the U.S. to remanufacture.

15                 CHAIRMAN SURO-BREDIE: Are the cores you  
16                  bring back only Caterpillar cores?

17                 MR. LOPEZ: Yes.

18                 MR. SCHOOFF: It is more than engines.  
19                  We've talked engines, but it's engines, transmissions,  
20                  drive train components, the highly useable repaired  
21                  items that -- for a car, it's like the wheels, the  
22                  transmissions, the engines and stuff. So it's the

1 high volume.

2 MR. STEELE: Do you do any leasing out of  
3 Singapore?

4 MR. SCHOOFF: I don't know. We don't. It  
5 would be dealer that would do it if it was a dealer,  
6 but --

7 MR. LOPEZ: As Ron mentioned, it's more  
8 than engines and it could be even more than what it is  
9 now. We're looking to do possibly machines, machinery  
10 manufacturing here in the United States and by  
11 machine, we mean what you would envision Caterpillar  
12 to be the bulldozers, the big tractors and trucks.  
13 We're aiming to do that here in the United States and  
14 this would be something that would help us do that  
15 here in the U.S.

16 MS. BRYAN: How do the cores come in  
17 again? They come in under the new truck category or  
18 new engine category?

19 MR. LOPEZ: They come in under engine and  
20 engine category.

21 MR. SCHOOFF: Or whatever the core, the  
22 classification has if it was new, yes.

1                   MR. KARHNAK: I assume some of these cores  
2                   are likely not in a condition to be remanufactured.  
3                   Are those scrapped out, much as you would in a scrap  
4                   yard here in the United States?

5                   MR. LOPEZ: Yes.

6                   MR. KARHNAK: So there is another place  
7                   for these cores to go if they don't come back to be  
8                   remanufactured?

9                   MR. LOPEZ: That's right.

10                  MR. KARHNAK: Thank you.

11                  MR. SCHOOFF: I don't know if I understood  
12                  that question for sure.

13                  MR. KARHNAK: Earlier in the testimony,  
14                  Mr. Lopez suggested that you didn't know what happened  
15                  to the ones that didn't come back for remanufacture,  
16                  at least the way I interpreted what he said and I just  
17                  wanted to clarify that indeed, some of these things  
18                  cannot be remanufactured or that somehow don't get  
19                  into your system might go through a recycling process  
20                  and go to scrapyards similar to what we would do here  
21                  in the United States.

22                  MR. SCHOOFF: We try to bring everything

1 back and make that determination here. There's parts  
2 that may not be salvageable on the exterior, but when  
3 we get into -- there may be components that are. So  
4 our goal is to bring everything back and the dealer is  
5 on the core, his goal is to bring everything back. We  
6 don't want the aftermarket of Caterpillar engines out  
7 there, so our goal is to bring all the cores back and  
8 make the determination and the review here.

9 MR. CHANG: How big is this a part of your  
10 business?

11 MR. SCHOOF: We were saying around \$750  
12 million, I think that's a rough estimate.

13 MR. LOPEZ: Between \$500 and \$750 million  
14 a year.

15 MR. KARHNAK: Let me ask one more than, if  
16 I may. I'm familiar with a number of other  
17 manufacturers of construction equipment. Do the other  
18 manufacturers also follow the same principle of trying  
19 to bring cores back to the U.S.

20 MR. SCHOOF: I know our main engine  
21 competitor does, yes.

22 MR. LOPEZ: We believe in the automotive

1 industry they do this and plan on doing more of it.

2 MR. LEAHY: I've got one question. Have  
3 you given any thought from a customs perspective of  
4 language that could be used to separate these products  
5 out from whatever else is in the categories or are  
6 currently coming in under?

7 MR. LOPEZ: We're thinking through some  
8 language. We'd like to provide that to you separately  
9 in this hearing.

10 MR. LEAHY: As you know that will become  
11 the issue, at what point does this -- is this article,  
12 the article you're talking about versus something  
13 different.

14 MR. LOPEZ: And the language that we're  
15 trying to come up to propose to you is -- to the USTR,  
16 is it centers around the fact that when the item gets  
17 to the United States and goes through the  
18 remanufacturing process, it loses its identity that it  
19 had as a previous engine.

20 If you can conceptualize this it really is  
21 a big bin of just stuff that is dirty, broken and they  
22 take it apart piece by piece, throw away the bad, keep

1 the good or the salvageable and it goes back through  
2 the remanufacturing process which is nearly as  
3 extensive or even more extensive in some respects as  
4 a manufacturing process of a brand new part. They go  
5 through all sorts of sonar testing of the integrity of  
6 let's say it's a metal for a head or for pistons and  
7 they weld it. They do all sorts of testing and that  
8 is stuff that we will be putting into the language  
9 that we'll provide to the U.S.

10 MR. LEAHY: But all that happens once it  
11 gets into the United States?

12 MR. LOPEZ: Yes.

13 MR. LEAHY: So it hasn't been  
14 disassembled, so you can't bring it in as scrap. You  
15 have to bring it in as --

16 MR. LOPEZ: Exactly. It has to be  
17 destined for remanufacturing.

18 MR. LEAHY: And how much of a duty are you  
19 already facing on what you currently are bringing in?

20 MR. LOPEZ: It varies from 2.5 to 4.2  
21 percent.

22 MS. BRYAN: Is Singapore a kind of a



1 staging area for lumps of junk coming from the rest of  
2 Asia destined for the United States for  
3 remanufacturing?

4 MR. LOPEZ: Yes, it is.

5 MS. BRYAN: So there's an origin issue too  
6 of whether this is actually -- qualified as product  
7 from Singapore.

8 MR. LOPEZ: In precisely the language that  
9 we would hope in the Singapore free trade agreement  
10 would recognize that the remanufacturing process is so  
11 extensive and the transformation of the broken, dirty  
12 engine into maybe a new set of parts or a new engine  
13 is enough to give it origin within the territories of  
14 the parties.

15 MR. LEAHY: Thank you.

16 MR. CHANG: Why would you need new  
17 language specifically for remanufacturing? Isn't the  
18 tariff liberalization enough on those products? Why  
19 would you need new language?

20 MR. LOPEZ: Currently, we're being imposed  
21 duties on these products between 2.5 and 4.2 percent  
22 because when a broken, dirty engine comes in, it's

**NEAL R. GROSS**

COURT REPORTERS AND TRANSCRIBERS  
1323 RHODE ISLAND AVE., N.W.  
WASHINGTON, D.C. 20005-3701

(202) 234-4433

[www.nealrgross.com](http://www.nealrgross.com)

1 being dutied as an engine even though it's not useful  
2 as such, unless it goes through the remanufacturing  
3 process. If the trade agreement would recognize a  
4 remanufacturing process as something unique, that  
5 transforms what's coming in, it would provide us for  
6 the duty treatment that we're seeking.

7 MR. KARHNAK: I have an additional  
8 question. This is very fascinating for me personally.  
9 Are the engines and other parts you're bringing back  
10 for remanufacture originally manufactured in the  
11 United States or some are manufactured in other  
12 countries as well?

13 MR. SCHOOF: By and large, most of them  
14 are manufactured here in the U.S. They're originally  
15 manufactured here.

16 CHAIRMAN SURO-BREDIE: Can you tell us  
17 what the employment in the remanufacturing is in the  
18 United States?

19 MR. LOPEZ: I can provide that answer to  
20 you separately. I don't know off the top of my head.

21 CHAIRMAN SURO-BREDIE: Are there any more  
22 questions? This is a tricky request. Thank you.

1 MR. LOPEZ: Thank you.

2 MR. SCHOOFF: Thank you.

3 CHAIRMAN SURO-BREDIE: The next witness is  
4 Mr. Don Ritter of the National Environmental Policy  
5 Institute.

6 MR. RITTER: Is everybody ready? Thank  
7 you very much, Madam Chairman, ladies and gentlemen.  
8 It's my privilege to appear here today. I'm Don  
9 Ritter, Founder and Chairman of the National  
10 Environmental Policy Institute, a nonpartisan, not for  
11 profit environmental policy organization here in  
12 Washington, D.C. I also served in the United States  
13 Congress for 14 years as a Member of the Energy and  
14 Commerce Committee and the Science Committee.

15 I'm here because I believe the U.S.-  
16 Singapore free trade agreement could be a powerful  
17 platform with twin goals of economic growth and  
18 environmental quality in the Asia region. Copies of  
19 my remarks are available, as well as the comment I  
20 submitted earlier on the scope of environmental review  
21 for the proposed U.S.-Singapore free trade agreement.

22 In the brief time I've got available, I'd

1       like to make three points.     First, the world's  
2       environmental future will be determined in significant  
3       part by what happens in the rapidly industrializing  
4       countries, especially in Asia and Latin America where  
5       economic and population growth and environmental  
6       stress are converging most forcefully.   My emphasis  
7       here will be on the likely direction of economic  
8       development in Asia over the next 20 years and its  
9       implications for the environment, rather than on  
10      current manifestations of environmental stress.

11               The President's climate change plan and  
12      I'll get into this a little bit later is much larger  
13      in scope than its stated purpose.   It articulates an  
14      agenda for environmentally sustainable development in  
15      the 21st century.   The President understands that  
16      technology has contributed most to the expansion of  
17      wealth and productivity in the world.   Rather,  
18      properly challenged it could be the key to  
19      environmental sustainability as well.   No better  
20      platform to carry such an agenda forward than the  
21      international trade regime.

22               Third, I want to underscore my believe

1 that the best approach to economic and environmental  
2 progress is to be found in the context of mutual  
3 interest and joint action, rather than in conditions  
4 and compliance regulation. Given the extraordinary  
5 economic and environmental record of the United States  
6 and Singapore and the international and regional  
7 leadership positions of the two countries, I strongly  
8 urge that the environmental provisions of the proposed  
9 free trade agreement be used to promote a clean  
10 revolution in the Asia region.

11 First, let's take a quick look at Asia.  
12 Nowhere in the world is the challenge of shifting to  
13 patterns of economic development that are less  
14 intensive in the use of energy, water and materials  
15 and in production of waste and pollution, more urgent  
16 than in the rapidly industrializing countries of Asia.  
17 It's critically important for us to recognize that the  
18 region is in the midst, not at the end, of an  
19 unparalleled industrial-led development transition.

20 Coupling the fact that 50 percent of  
21 global manufacturing is already located in Asia and  
22 Latin America with a continuing movement of global

**NEAL R. GROSS**

COURT REPORTERS AND TRANSCRIBERS  
1323 RHODE ISLAND AVE., N.W.  
WASHINGTON, D.C. 20005-3701

(202) 234-4433

[www.nealgross.com](http://www.nealgross.com)

1 manufacturing from the industrialized to the  
2 industrializing nations, with the prospect that 50  
3 percent of the global economy will be generated in  
4 Asia and Latin America in a short 20 years, with the  
5 consequence that hundreds of millions of new consumers  
6 from those countries will be demanding manufactured  
7 consumer goods. There is every reason to put our  
8 focus on the force and momentum of these phenomenon as  
9 we look at free trade and the environment.

10 Second, let's take a look at the  
11 President's Climate Change Plan. Right up front it  
12 recognizes that societies pursue multiple goals and  
13 insists that we face up to the potential for conflict.  
14 Clearly, economic goals must take account of the  
15 environment, of aquifers in our Midwest and aquifers  
16 in Southeast Asia. Similarly, environmental goals  
17 must take into account the economy of jobs in Detroit  
18 and jobs in Djakarta.

19 How to reconcile economic and  
20 environmental goals? Here, the President's plan  
21 relies heavily on the concept of emissions intensity.  
22 The concept is relatively simple. If all economic

1 activity is associated with some level of  
2 environmental impact and here's the case of carbon  
3 emissions. Carbon emissions will rise unless the  
4 ratio of that impact to economic activity is reduced.  
5 President calls this intensity -- by the way, this is  
6 the first major figure in the world to put the issue  
7 of intensities on the world discussion table. He  
8 mentions it some 15 times in his policy pronouncement  
9 on climate change.

10 Organizing thought and action around this  
11 simple concept is the only way to get a real handle on  
12 greenhouse gas emissions and other environmental  
13 impacts in a growing economy. The National  
14 Environmental Policy Institute has been championing  
15 this focus for some time.

16 In December of last year, we organized a  
17 workshop for advocacy, business and government  
18 leadership to evaluate the intensities approach. The  
19 workshop was organized in collaboration with and at  
20 the National Academy of Sciences which itself has  
21 argued that reductions in environmental intensity  
22 should be a critical policy priority here. I refer

**NEAL R. GROSS**

COURT REPORTERS AND TRANSCRIBERS  
1323 RHODE ISLAND AVE., N.W.  
WASHINGTON, D.C. 20005-3701

1       you to their publication, "Our Common Future."

2               Institute work has identified examples  
3       where even in the context of rapid economic growth,  
4       improvements in intensities have resulted in  
5       reductions in environmental impact. The Institute has  
6       identified a number of intensity-related policy  
7       instruments and foremost among them would be the  
8       greatly expanded use of performance-based standards  
9       and economic instruments. This allows the selection  
10      of the most efficient, most productive ways of  
11      achieving environmental goals, reducing intensities in  
12      the process.

13              I would also direct you to the intensities  
14      index developed by the Greening Industry Network,  
15      measuring and then ranking releases of carbon dioxide,  
16      emissions of organic pollutants and the consumption of  
17      energy per unit of industrial output. I handed one of  
18      these out and you'll see the sliding scale.

19              Environmental performance clusters along  
20      a sliding scale from the OECD nations including the  
21      United States to the rapidly industrializing economies  
22      to the developing world to the mega states of China,

**NEAL R. GROSS**

COURT REPORTERS AND TRANSCRIBERS  
1323 RHODE ISLAND AVE., N.W.  
WASHINGTON, D.C. 20005-3701

(202) 234-4433

[www.nealgross.com](http://www.nealgross.com)



1 India, Nigeria and Russia. This is a good indication  
2 of where environmental action is desperately needed.

3 The index also underscores the enormous  
4 opportunity for improvement. Performance at the  
5 higher end is not theoretical, rather, it is the real  
6 technological frontier.

7 Significantly, the index reflects a close  
8 correlation to various other indices such as the World  
9 Economic Forum Competitiveness Index and the Heritage  
10 Foundation's Economic Freedom Index, demonstrating  
11 that economic and environmental progress can go hand  
12 in hand. Indeed, putting all the indices side by  
13 side, one sees an almost identical layout for quality  
14 and environment, competitiveness and open market  
15 policies.

16 The third element of the Bush Plan for  
17 Climate Change identifies technological change as the  
18 preferred strategy for reducing emission intensities.  
19 And here, there's every reason for optimism.  
20 Technologies that improve eco-efficiency and resource  
21 productivity exist. The Administration is correct  
22 that the technological infrastructure of the United

**NEAL R. GROSS**

COURT REPORTERS AND TRANSCRIBERS  
1323 RHODE ISLAND AVE., N.W.  
WASHINGTON, D.C. 20005-3701

(202) 234-4433

[www.nealgross.com](http://www.nealgross.com)

1 States can create additional products and processes  
2 that can harmonize economic and environmental  
3 objectives. It's also correct that investments in  
4 environmental technologies represent an exciting  
5 opportunity to enhance economic competitiveness and to  
6 open new technology markets world-wide.

7 While our economic system has made  
8 remarkable progress in cleaning up the environmental  
9 detritus of a hundred years of industrial growth,  
10 today in many ways it constitutes a barrier to the  
11 development of new technology based products and  
12 services.

13 Our environmental management system is  
14 seeking to take care of the past. So much of the  
15 Asian system with so much economic growth ahead of  
16 them seeks to take care of the future. Our system is  
17 biased towards existing, often essentially mandated  
18 technologies, discourages creation of new technologies  
19 that take firms more efficiently to regulatory  
20 standards even beyond current environmental  
21 requirements.

22 In Asia, there are enormous opportunities

1 for approaches based on intensities and technology.  
2 Asian countries have the opportunity to get ahead of  
3 the curve building in environmental quality from the  
4 outset. It's against this background that I would  
5 urge the following framework for the environment and  
6 the proposed U.S.-Singapore free trade agreement. As  
7 noticed in my opening, this framework is more  
8 carefully described in an earlier submitted comment,  
9 but also available for distribution for today.

10 Recognizing that the world's environmental  
11 future will be determined in significant part by what  
12 happens in the rapidly industrializing countries of  
13 Asia, that the scope of environmental review encompass  
14 the larger sustainability challenge in the Asia  
15 region.

16 Recognizing the positive environmental  
17 achievements of both the United States and Singapore,  
18 that the environmental review focus on the potentials  
19 for mutual interest and joint action, rather than  
20 conditions, compliance and regulation. Recognizing  
21 that the United States and Singapore have both  
22 articulated principles for environmentally sustainable

1 growth, that the parties agree to a common agenda for  
2 economic progress and environmental quality and joint  
3 action and cooperative activity, and to promote that  
4 agenda in international and regional discussions  
5 related to development, environment and trade.

6 Thank you very much for the opportunity to  
7 be here and I wish to take questions.

8 MR. KARHNAK: Thank you. EPA first, of  
9 course. Although you didn't quote EPA in here, I am  
10 a fellow Pennsylvanian, so we do have something in  
11 common. Northeastern Pennsylvania, north of Scranton.

12 I have several questions. You speak about  
13 expanding the scope of the environmental review to  
14 include countries outside of Singapore itself and the  
15 way that we read the Executive Order and the dictates  
16 that come with that is to deal with conditions in the  
17 United States and global and trans-boundary issues as  
18 they might effect from the products of the trade  
19 agreement. Do you have some suggestions on how we  
20 might -- either things you have seen within the  
21 Executive Order or the guidelines or some other  
22 suggestions on how we might move beyond just looking

**NEAL R. GROSS**

COURT REPORTERS AND TRANSCRIBERS  
1323 RHODE ISLAND AVE., N.W.  
WASHINGTON, D.C. 20005-3701

(202) 234-4433

[www.nealgross.com](http://www.nealgross.com)

1 at these two countries?

2 MR. RITTER: There are some simple things  
3 you can do. You can just start up a forum with the  
4 principals that are encompassed in these remarks and  
5 begin to discuss directions of environmental policies  
6 in those respective countries that can take into  
7 account the idea of reducing environmental  
8 intensities.

9 You're going to have regulatory  
10 approaches, you're going to have various issues that  
11 come up world-wide. I'm thinking in terms of the  
12 central approach. It would be very valuable to look  
13 at the larger picture of where industry is going, what  
14 are the policies within the respective sectors of  
15 industry. There's also issues of research. Dave  
16 Angel, who specializes in this field, who will be  
17 speaking later to deal with research issues across the  
18 boundaries to evolve these concepts and how they would  
19 be applied in the different countries.

20 MR. KARHNAK: You state that the Asia  
21 development --

22 MR. RITTER: I'm sorry. This kind of

1 system needs some transparency. You can't just do  
2 this behind closed doors because people will try to  
3 fake it, if they can and game it. So issues of  
4 transparency and governance are a part of this and  
5 this has to be understood right up front.

6 MR. KARHNAK: You state that the Asian  
7 Development Bank predicts declining environmental  
8 quality under a "business as usual" scenario. If  
9 there are specific reports, you just mentioned a bank,  
10 if there are specific reports that we would like to  
11 have, we welcome having specific references so we can  
12 look at them as well. Thank you.

13 And the third, much of what you have in  
14 your comments and as you just elaborated deals with  
15 looking at issues outside of Singapore and the United  
16 States. And I wonder if you have any specific  
17 conditions or things or suggestions for cooperative  
18 projects, just Singapore-specific that we might be --  
19 that we should take a look at?

20 MR. RITTER: Well, we have a regulatory  
21 system. They have an environmental management system.  
22 I would think that it would be important before we

**NEAL R. GROSS**

COURT REPORTERS AND TRANSCRIBERS  
1323 RHODE ISLAND AVE., N.W.  
WASHINGTON, D.C. 20005-3701

(202) 234-4433

[www.nealgross.com](http://www.nealgross.com)

1 export, for example, export EPA or Singapore's  
2 environmental management system, that we consider  
3 what, along with the nationals, what would be the best  
4 way to go in reaching lower intensity.

5 CHAIRMAN SURO-BREDIE: Thank you very  
6 much.

7 David Angel is next.

8 MR. ANGEL: Thank you. My name is David  
9 Angel. I'm Laskoff Professor of Economics, Technology  
10 and the Environment at Clark University in Wooster,  
11 Massachusetts.

12 My remarks focus on the desirability of  
13 including within this free trade agreement one or more  
14 initiatives that actively promote the coordination of  
15 trade and environmental policy. Research has shown  
16 that socio-economic welfare of participating countries  
17 is maximized when trade and policy -- when trade and  
18 environmental policy are coordinated. My comments  
19 focus on the forms such coordination might take in the  
20 context of the U.S.-Singapore FTA.

21 I have three remarks. First, the key  
22 significance of this and other free trade agreements

1 for the environment lies in the opportunities to drive  
2 forward improvements in energy resource and pollution  
3 efficiency. This goal will be achieved primarily not  
4 by reregulating trade with environmental ends, but by  
5 promoting the development, trade and use of  
6 technologies that are ever less energy resource and  
7 pollution intensity.

8 One example, currently working in Asia,  
9 documenting the range of energy efficiencies of cement  
10 manufacturing. Cutting edge cement plants are two to  
11 three times more energy efficient than existing older  
12 vertical kilns. So you have some sense there of the  
13 scope of environmental improvement and economic  
14 improvement that could be achieved by promoting the  
15 sale and adoption of technologies that are both more  
16 economically and more environmentally efficient,  
17 technologies that are manufactured in the United  
18 States and in other OECD countries.

19 Second, because there are significant  
20 market failures associated with the trade, adoption  
21 and use of technology, free trade alone is rarely  
22 sufficient to achieve the desired rapid adoption of



1 technologies, even when these technologies are both  
2 economically and environmentally efficient. It's for  
3 this reason that active coordination of environmental  
4 and trade policy is warranted.

5 The term now used to describe such  
6 coordination is policy integration. And it's  
7 interesting that both the United States and Singapore  
8 among all countries within the Asia Pacific region,  
9 have some of the best experience with policy  
10 integration. And there are some details on this in my  
11 written comments. In Singapore, this experience  
12 relates primarily to success in promoting high  
13 environmental performance by international  
14 investments. In the United States, it's through such  
15 initiatives as the U.S.-Asia environmental  
16 partnership. Now not all of this experience is  
17 positive, but in lessons learned, they are an  
18 important resource to be leveraged for this free trade  
19 agreement.

20 Thirdly, presence of visible efforts to  
21 coordinate trade and environmental policy will  
22 strengthen support for free trade and more generally

1 for the market-based economy as a whole and it's for  
2 this reason that we recommend that the partners to the  
3 U.S. free trade agreement consider implementing as  
4 part of this agreement one or more proposals to  
5 promote coordination of trade and environment. Such  
6 initiative might take the form of a collaborative  
7 between member institutions and these two countries.  
8 One example, for example, might well be a  
9 collaboration between the National Academy of Sciences  
10 in the United States and the Department of National  
11 Academy in Singapore.

12 The modality of this collaboration or  
13 initiative is not really the issue. The important  
14 point is that the focus should be on leveraging best  
15 practice and policy, and environmental policy; what  
16 has worked and what has not. Such an initiative will  
17 position environmental improvement and free trade as  
18 mutually supported goals and this will be to the  
19 benefit of both participating countries and to the  
20 region as a whole.

21 Thank you very much.

22 MR. KARHNAK: Thank you. You stress the

1 need for policy integration. Do you have any specific  
2 examples or maybe some general examples of where there  
3 might be need to improve that policy integration  
4 between the U.S. and Singapore?

5 MR. ANGEL: Let me list the three general  
6 areas that I think are quite important. The first is  
7 actually on new investment, new FDI investment, by the  
8 United States and by Singapore, again within the  
9 region for both these countries. I think one of the  
10 implications of Don Ritter's comments just now,  
11 there's a massive amount of new investment still to  
12 take place within this region.

13 An earlier World Bank study, for example,  
14 and I will give you the citations to these, suggested  
15 in a country like China as much as 70 to 80 percent of  
16 the capital investment will be in place 20 years from  
17 now is not on the table today. So one of the issues  
18 is how you shape investment in ways that both promote  
19 investment and promote improvement in environmental  
20 performance.

21 The second key area would be in small to  
22 medium-sized enterprises. A lot of the significant

1 environmental problems within the region relate to  
2 SMEs and many of the broader policies aren't that  
3 effective at reaching down to these institutions,  
4 largely because of the lack of managerial capability,  
5 financing options and information on technology  
6 choices that are available. It's that kind of policy  
7 that would really enable us to promote trade and goods  
8 and services in ways that also improve the  
9 environment.

10 I think the overall tenor of my comment is  
11 a focus on a policy framework that would support that,  
12 rather than on specific initiatives around particular  
13 products.

14 MR. KARHNAK: Then I gather you wouldn't  
15 hazard to give us a few examples of some potential  
16 cooperative projects?

17 MR. ANGEL: As I was listening to one of  
18 the previous speakers, I thought he had a very  
19 interesting example in the Caterpillar example of  
20 remanufactured engines that would clearly have  
21 important energy materials implications, so I would  
22 use that example here this morning.

1 MR. KARHNAK: If you have some more, I'd  
2 be glad to hear it. Thank you.

3 MR. STEELE: A quick question. Both your  
4 comments and Mr. Ritter's, talking about intensity,  
5 particularly, bore some striking resemblance to work  
6 that has been on-going for some time in the  
7 International Energy Agency. I was wondering if (a)  
8 that has helped develop your own research, your own  
9 thinking on matters.

10 Secondly, your work on the cement industry  
11 in Southeast Asia undergoing an awful lot of  
12 reorganization in the aftermath of the financial  
13 crisis. I wonder if that has presented in your view  
14 particular opportunities or have any of these  
15 opportunities to install new technology, have they  
16 been realized?

17 MR. ANGEL: Yes and yes. On the first  
18 one, yes. Obviously, the Department of Energy's  
19 initiatives in this area are very important and have  
20 informed what we have done. I think outside of energy  
21 though which perhaps the greatest step forwards in  
22 policy have occurred, this notion of intensities

**NEAL R. GROSS**

COURT REPORTERS AND TRANSCRIBERS  
1323 RHODE ISLAND AVE., N.W.  
WASHINGTON, D.C. 20005-3701

(202) 234-4433

[www.nealgross.com](http://www.nealgross.com)

1 really hasn't taken off as a policy framework and I  
2 think that's part of what we're trying to promote as  
3 a broader look, for example, resource intensity.  
4 Water, for example, is a critical resource intensity  
5 issue in much of the region. It hasn't received that  
6 much, as much attention as energy, but certainly the  
7 DOE's efforts in this regard have been very important.

8 In terms of the cement industry and  
9 restructuring, actually, I was in Thailand about 10  
10 days ago where the focus of the restructuring and  
11 where there's been post-1997 some significant capital  
12 investment and buy out of Thai-owned cement kilns and  
13 cement plants in the region.

14 One of the interesting issues when you buy  
15 out existing capital of that kind is what happens next  
16 and a lot of the emphasis on our work has actually  
17 been in new investment, that actually brings new, more  
18 efficient plants on line.

19 So I think it's a bit of an open question  
20 what will happen to the environmental performance of  
21 those cement plants that have now been bought out, in  
22 part, because of the low capacity usage of those

1 plants at the current time. This is a very large  
2 industry. There's one particular example, there's a  
3 very large industry that is a significant source of  
4 energy use and the greenhouse gas emissions.

5 MR. KARHNAK: You talked about going  
6 beyond Singapore in terms of the need for some of the  
7 kinds of environmental improvements that you talked  
8 about. Do you have a feel or can you tell us a little  
9 bit more about your observations when multi-national  
10 companies go into these areas and what the standards  
11 are that they bring with them. Do they normally  
12 conform to what's already in place or do they try to  
13 come to a higher standard environmentally?

14 MR. ANGEL: Big debate in the research  
15 community around that one. Generally, my own research  
16 is supported as being really two routes that you can  
17 take towards driving forward both an economic and  
18 environmental goals at the same time. One is if you  
19 -- what you might call a policy focused orientation.  
20 And that's the one I've principally spoken about  
21 today. How can you bring together strong economic and  
22 environmental policies in ways that are mutually

**NEAL R. GROSS**

COURT REPORTERS AND TRANSCRIBERS  
1323 RHODE ISLAND AVE., N.W.  
WASHINGTON, D.C. 20005-3701

(202) 234-4433

[www.nealgross.com](http://www.nealgross.com)

1       supportive.

2                   And the comment there is the -- if you  
3       develop policy frameworks of good practice, those  
4       diffuse within a region in the same way that products  
5       and technologies do. And it's for that reason that  
6       I've focused my comments on a policy framework and an  
7       initiative between the United States and Singapore  
8       that might really be developed in best practice and  
9       policy, the issue would be try and diffuse more widely  
10      within the region.

11                   On your question about whether MNCs and  
12      supply chains and networks, things like that, are an  
13      alternative to that, I believe generally they are.  
14      Certainly in the case of this particular industry that  
15      I've been working in cement, one of the sobering  
16      pieces of information I learned, I'm originally from  
17      Great Britain was the environmental performance of new  
18      cement factories in East Asia was higher than the  
19      environmental performance of many older cement  
20      factories in the U.K. So I do think there are  
21      significant opportunities to use MNCs and their supply  
22      networks to achieve this end. Obviously, that varies

**NEAL R. GROSS**

COURT REPORTERS AND TRANSCRIBERS  
1323 RHODE ISLAND AVE., N.W.  
WASHINGTON, D.C. 20005-3701

(202) 234-4433

[www.nealgross.com](http://www.nealgross.com)



1 a little bit depending on the particular kind of  
2 environmental problem you're looking at.

3 CHAIRMAN SURO-BREDIE: Thank you. Our  
4 last witness is Julie Hughes.

5 MS. HUGHES: Thank you, and as last, I  
6 will try to be brief and then if you have questions,  
7 of course, I'd be pleased to answer them.

8 Thanks for the opportunity to appear today  
9 and I know you already have our full statement, so I  
10 just want to hit the highlights of our testimony.

11 As you know, USAITA represents U.S.  
12 companies that import textiles and apparel from around  
13 the world, including Singapore. And talking to our  
14 members there are four main points that they raised  
15 with us what we are looking for in the Singapore FTA.

16 Obviously, the prompt elimination of U.S.  
17 tariffs, products including textiles and apparel,  
18 elimination of the merchandise processing fee and  
19 establishment of streamlined paperless customs entry  
20 procedures, use of a single rule of origin for all  
21 goods, based on the U.S.-Israel free trade agreement  
22 origin rules and expedited liberalization of the

**NEAL R. GROSS**

COURT REPORTERS AND TRANSCRIBERS  
1323 RHODE ISLAND AVE., N.W.  
WASHINGTON, D.C. 20005-3701

(202) 234-4433

[www.nealrgross.com](http://www.nealrgross.com)

1 quantitative restraints on Singapore's tax on apparel  
2 exports to the United States.

3 First, just a few words of overview.  
4 Singapore right now ranks as the thirty-third largest  
5 apparel supplier to the U.S. market. They supply less  
6 than one half of one percent of the total U.S. apparel  
7 imports which is down substantially from the position  
8 they were in at the beginning of the 1990s. To put  
9 this in context in quantity, Singapore ships slightly  
10 more apparel than Jordan, but less apparel than  
11 Israel.

12 The apparel production that remains in  
13 Singapore, while small, represents an important source  
14 of production for many USAITA member companies.  
15 Singapore is a niche supplier of high quality products  
16 to the U.S. market as well as a potential export  
17 destination for U.S. brand name companies.

18 Tariff reductions are an essential part of  
19 any FTA, of course, but with Singapore it's a little  
20 bit odd since they basically have very few duties that  
21 are in place and they impose no duties on tax on  
22 apparel products entering their market, so obviously,

1       our recommendation is that the U.S. should eliminate  
2       all duties on products of Singapore immediately upon  
3       implementation of the FTA.

4               We also recommend that FTA eligible goods  
5       should be exempt from the fees related to importation  
6       such as the merchandise processing fee and the cotton  
7       fee that's assessed pursuant to USDA's cotton research  
8       and promotion program. The MPF was exempt from the  
9       Canada FTA and ultimately from NAFTA so we think  
10      there's a precedent for that exemption.

11             In addition, we urge that the customs  
12      procedures under the FTA should authorize that all  
13      entries should be paperless regardless of sector. The  
14      availability of paperless entry procedures will  
15      greatly speed the movement of goods providing  
16      Singapore and its U.S. customers with an advantage not  
17      available to other countries. While traditionally,  
18      textile and apparel products have been excluded from  
19      paperless processing, the FTA provides a basis for  
20      eliminating that constraint.

21             Rules of origin, I think, is the crux of  
22      the issue with the Singapore FTA. We want to be on

1 the record that we reject the NAFTA rules of origin as  
2 serving as a precedent for the Singapore FTA, for the  
3 same reasons that the NAFTA rules were not used in the  
4 U.S.-Jordan FTA. They are not appropriate when we  
5 look at the trade between the U.S. and Singapore.  
6 Our view is that the most appropriate rules are those  
7 contained in the U.S.-Israeli FTA.

8 Why? Because when we look at what is  
9 going to happen in textile and apparel trade, we  
10 believe we have to keep in mind the fact that the  
11 international textile regime is being dismantled on  
12 January 1, 2005. With all quotas eliminated on World  
13 Trade Organization members, the rationale for  
14 treating textile and apparel products differently in  
15 the negotiation is fast disappearing. The Singapore  
16 FTA presents an excellent opportunity for the U.S. to  
17 move forward to a standard for determining origin, not  
18 based on the protection of the past.

19 We recommend the substantial  
20 transformation standard with a 35 percent value added  
21 requirement and of course a direct shipment  
22 requirement as required under the U.S.-Israeli FTA.

**NEAL R. GROSS**

COURT REPORTERS AND TRANSCRIBERS  
1323 RHODE ISLAND AVE., N.W.  
WASHINGTON, D.C. 20005-3701

1           One other point that our members have made  
2           very strongly about the rule of origin is that  
3           tinkering with the rules so that each FTA is different  
4           from the other is creating a regulatory nightmare for  
5           our companies, as well as our trading partners.  
6           Particularly in a sector as complicated as apparel,  
7           we ask you to note create a new rule for the Singapore  
8           FTA.

9           One of the most important benefits and  
10          incentives that the U.S. can offer to Singapore as an  
11          FTA partner is quote "liberalization," something the  
12          U.S. has consistently denied to all trading partners  
13          during the 10-year life of the agreement on textiles  
14          and clothing. The gradual elimination of quotas from  
15          Mexico, under NAFTA, permitted Mexico to enjoy the  
16          benefits of quota-free trade in advance of the  
17          elimination of quotas on others. There's a little  
18          time left before quotas go away under the ATC and more  
19          expedited schedule for quota elimination seems logical  
20          to us and we would like to recommend immediate  
21          elimination of the existing quotas on Singapore's  
22          apparel products when we enter into the FTA.

**NEAL R. GROSS**

COURT REPORTERS AND TRANSCRIBERS  
1323 RHODE ISLAND AVE., N.W.  
WASHINGTON, D.C. 20005-3701

(202) 234-4433

[www.nealrgross.com](http://www.nealrgross.com)

1           Finally, we need to say a word, I think,  
2           about the customs requirements and anti-circumvention  
3           measures. Obviously, we support strong measures,  
4           particularly in the aftermath of September 11th. We  
5           need heightened levels of scrutiny and improved  
6           standards of review for all imports from all  
7           countries. But from the perspective of textile and  
8           apparel importers, Singapore has a very positive  
9           reputation for cooperation and taking steps to ensure  
10          that illegal shipments are not condoned. Indeed,  
11          Singapore is the only country with which the U.S.  
12          currently has fully paperless, electronic visa  
13          paperless process in place.

14                 The system is touted by our industry,  
15          importers and the domestic industry as well as the  
16          U.S. government as the best mechanism for preventing  
17          illegal trans-shipment and counterfeiting of visas and  
18          I think it sets a precedent for what Singapore is  
19          capable of doing. So with that, let me thank you for  
20          the chance to appear today and I'd be happy to answer  
21          any questions you might have.

22                 MR. STEELE: I've got a couple of just

1 very quick questions. Again, thanks very much for  
2 your testimony. I appreciate it and also appreciate  
3 your support for the negotiation.

4 You mentioned the relative decline in  
5 Singapore shipments to the U.S. since the early 1990s,  
6 I guess. Do you, in your view, would elimination of  
7 tariffs, elimination of quotas on their textile and  
8 apparel shipments to the U.S., would that  
9 significantly enhance their export position?

10 MS. HUGHES: I think our sense is that  
11 that would allow them to remain relatively stable.  
12 What really happened over the 1990s is a tremendous  
13 shift to Western Hemisphere production, so Mexico is  
14 now the largest supplier of apparel. The second  
15 largest is Honduras, so NAFTA and the CBI benefit  
16 programs have definitely worked to shift trade toward  
17 this region which I think was the policy goal  
18 intended.

19 So what we see in Singapore are decreasing  
20 -- our suspicion is that they might stay more constant  
21 to where they are today or otherwise they will  
22 continue to slide as a supplier to the U.S. market.

**NEAL R. GROSS**

COURT REPORTERS AND TRANSCRIBERS  
1323 RHODE ISLAND AVE., N.W.  
WASHINGTON, D.C. 20005-3701

(202) 234-4433

[www.nealrgross.com](http://www.nealrgross.com)

1                   MR. STEELE:     Those same issues, the  
2                   elimination of quota or the immediately elimination of  
3                   tariffs, what's your assessment of the atmosphere on  
4                   the Hill with respect to those two items?

5                   MR. STEELE:     Well, I think there may be  
6                   some misunderstanding about the role of Singapore. I  
7                   recognize that there have been some Members of  
8                   Congress who have said don't include textiles and  
9                   apparel in FTA negotiations.

10                  However, when you look at Singapore, what  
11                  Singapore is shipping to the U.S. market is apparel.  
12                  They're not shipping yarns. They're not shipping  
13                  fabrics. They're not challenging our domestic  
14                  industry. More than 90 percent of their shipments to  
15                  the U.S. are apparel products and I don't think anyone  
16                  is there arguing that they are competing with or going  
17                  to take away apparel production from the United  
18                  States.

19                  So we look for what our members are  
20                  looking for. I really don't see that the Singapore  
21                  FTA is going to present any problems for the domestic  
22                  industry.



1 MR. CHANG: Do you have any idea what the  
2 cost of the yarn forward might be?

3 MS. HUGHES: To the U.S.? Well, I mean  
4 basically yarn forward is used for Singapore, then  
5 basically we are telling Singapore that the production  
6 that they have had will never qualify for this FTA.  
7 They're not producing yarns in Singapore. So they  
8 were saying well, you use U.S. yarns.

9 The only precedent that we have that might  
10 be a little bit similar is to look at the AGOA, what's  
11 happened in sub-Saharan Africa and a few companies  
12 have used U.S. fabrics made with U.S. yarns, but they  
13 have found they have run into a lot of problems  
14 because of the criteria that you have to meet to  
15 comply are pretty high, so I mean yarn forward  
16 basically means you're not going to make apparel in  
17 Singapore that qualifies for FTA treatment.

18 CHAIRMAN SURO-BREDIE: Where does the yarn  
19 come from?

20 MS. HUGHES: I think that most of the yarn  
21 in Singapore comes from the Southeast Asian region.  
22 Now I do understand that DuPont has just opened a

**NEAL R. GROSS**

COURT REPORTERS AND TRANSCRIBERS  
1323 RHODE ISLAND AVE., N.W.  
WASHINGTON, D.C. 20005-3701

(202) 234-4433

[www.nealrgross.com](http://www.nealrgross.com)

1 facility or have announced the opening of a facility  
2 in Singapore which I assume is positioned there to  
3 take advantage of the FTA as well as supply the rest  
4 of the region.

5 MR. LEAHY: Just one question. You had  
6 mentioned in your testimony this issue of paperless  
7 entry.

8 MS. HUGHES: Right.

9 MR. LEAHY: And that textiles and apparel  
10 have traditionally been excluded from that.

11 MS. HUGHES: yes.

12 MR. LEAHY: What's the reasoning behind  
13 keeping textiles and apparel out of that?

14 MS. HUGHES: Well, the rationale has been  
15 because there's the quota program and because there  
16 are additional pieces of paper or textile declarations  
17 and other pieces of paper that will have to be filed.  
18 Customs has said they like seeing those pieces of  
19 paper. We've tried to push toward paperless entry and  
20 the ELVIS Program, the Electronic Visa Program that  
21 Singapore participates in we thought set a great  
22 precedent. However, to be honest, the Customs

**NEAL R. GROSS**

COURT REPORTERS AND TRANSCRIBERS  
1323 RHODE ISLAND AVE., N.W.  
WASHINGTON, D.C. 20005-3701

(202) 234-4433

[www.nealrgross.com](http://www.nealrgross.com)

1 computers couldn't keep up with moving other countries  
2 to full paperless, at least that's what we've been  
3 told, so what we'd like to do is we're eliminating the  
4 quotas. We're eliminating the Visa requirements for  
5 WTO members. We'd really like to move toward  
6 paperless entry as other sectors have today.

7 MR. LEAHY: Thank you.

8 MS. HUGHES: Sure.

9 CHAIRMAN SURO-BREDIE: Thank you very  
10 much. This hearing is adjourned.

11 (Whereupon, at 11:33 a.m., the hearing was  
12 concluded.)  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22

